National Film Board of Canada

2011-2012

Quarterly Financial Report
for the quarter ended December 31, 2011

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1. Introduction

The National Film Board of Canada (NFB) was created by an act of Parliament in 1939. A federal cultural agency within the Canadian Heritage portfolio, the NFB exists to produce and distribute original and innovative audiovisual works that add to our understanding of the issues facing Canadians and raise awareness of Canadian values and viewpoints across the country and around the world. The NFB serves Canadians by producing and making accessible, in all regions of the country and on all available platforms, rich and diverse cultural content that reflects Canada's rapidly shifting demographic profile – content that would otherwise not be produced. A brief description of the agency's activities for the current year can be found in *Part II of the Main Estimates*.

This quarterly report has been prepared by management as required by Section 65.1 of the *Financial Administration Act*, and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates.

Basis of Presentation

This quarterly report has been prepared by management using expenditure accounting. The accompanying Statement of Authorities includes the agency's spending authorities granted by Parliament and those used by the agency consistent with the Main Estimates and Supplementary Estimates for the 2011-2012 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through the appropriation act or through legislation in the form of statutory spending authority for specific purposes.

The NFB uses the full accrual method of accounting to prepare its annual financial statements in accordance with Treasury Board accounting principles, which are consistent with generally accepted Canadian accounting principles for the public sector. However, the spending authorities voted by Parliament remain on an expenditure basis.

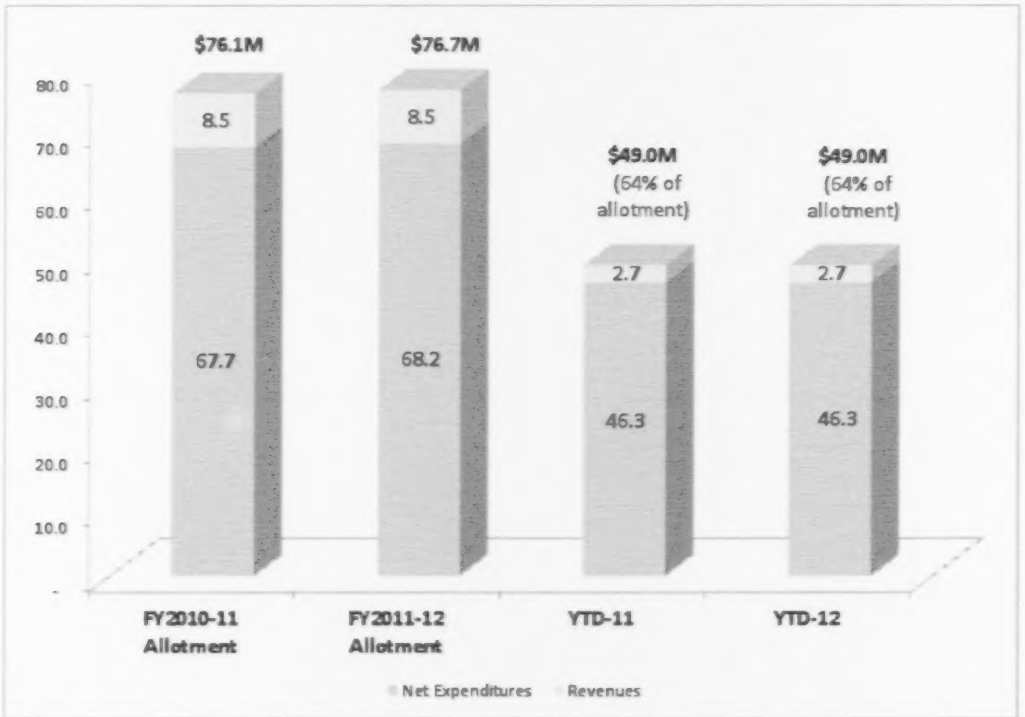
This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

Statement of Authorities

The Budgetary authorities granted to the NFB in 2011-2012 were $66.8 million, compared with $67.2 million in 2010-2011, or a reduction of $400,000. As at the end of the third quarter of 2011-2012, the level of authorities currently totals $68.2 million for 2011-2012, compared with $67.7 million for the same period last year.

During the second quarter, the NFB received authorization to carry forward $603,000 related to operating expenditures from 2010-2011. The carry-forward from 2009-2010 received in 2010-2011 totalled $438,000. The NFB also received the Treasury Board allocation related to Vote 30, which covers Paylist Requirements, for a total amount of $826,000, whereas in 2010-2011, the allocation was paid during the last quarter. In 2011-2012, the Treasury Board modified the procedure for obtaining Vote 30 allocations to enable the departments to receive these authorities throughout the fiscal year.



The total year-to-date gross budgetary expenditures on December 31, 2011 were $49 million, corresponding to a use of 64% of our available total, which is comparable to last year's results for the same period.

Departmental Budgetary Expenditures by Standard Object

Actual net budgetary expenditures in the third quarter of 2011-2012, totalling $15.973M, were up $713,000 compared with the same period last year. The increase in actual gross budgetary expenditures in the third quarter totalled $636,000 (see Table 2).

Year-to-date net budgetary expenditures in the third quarter, totalling $46.292M, were down $9,000 compared with the same period last year. The decrease in actual year-to-date gross expenditure in the third quarter totalled $39,000 (see Table 2).

These variances are mainly due to the following key elements:

Personnel costs increased by $229,000 compared with the same quarter last year, due to the increase in the benefits rate from 25.5% to 26.5%. Personnel costs declined by $146,000 for the first three quarters compared with the same period last year, primarily owing to natural attrition resulting from several retirements and implementation of the efficiency improvement programs.

Transportation and communication costs decreased by $173,000 compared with the first three quarters of 2010-2011. Last year, several film production projects, such as the documentary *Pink Ribbons, Inc.*, were in the shooting phase and therefore required more travel expenditures.

Information costs increased by $251,000 compared with the same quarter last year, for a total increase of $171,000 for the first three quarters. In 2011-2012, a marketing strategy was undertaken for 10 large-scale projects. The main priority projects are *Pink Ribbons, Inc.*, *Wiebo's War*, *ORA*, *Barcode*, *The Van Doos* and *Hole Story*. The third quarter was also included the Holiday Season campaign and the download-to-own campaign.

Professional and special services consists primarily of audiovisual services for film production and cash financing in co-productions. These increased by $599,000 compared with the first three quarters of 2010-2011, primarily owing to film productions in the Ontario and North West centres, such as *St. Judes*, *Stories We Tell* and *Queen*.

Rental costs decreased by $157,000 compared with the same quarter last year, for a total decrease of $380,000 for the first three quarters. In 2010-2011, several film production projects were in the shooting phase, including *ORA*, *Hole Story*, *Pink Ribbons, Inc.* and *Wiebo's War*. This required additional expenditures for the rental of technical equipment.

Expenditures for materials and supplies declined by $117,000 compared with the first three quarters of 2010-2011. Last year, a major market study was carried out on European TV audience statistics from 2007 to 2010.

Machinery and equipment acquisition expenditures decreased by $368,000 during the first three quarters of 2011-2012. This decrease is mainly due to the end of lease-purchase contracts for equipment acquired for the digital transition, for which the NFB exercised the options to purchase in the 2010-2011 fiscal year.

"Other payments" includes costs related to rights clearance for accessibility and distribution of works and buying back rights for the production of films. The $419,000 increase compared with the first three quarters of 2010-2011 is primarily due to clearing digital rights required for the NFB.ca online Screening Room, which continues to enrich its content and now has over 2,000 titles available for free viewing, 640 titles for download-to-own and 529 titles related to *CAMPUS* educational content.

The other types of expenditures by standard object are in line with the historic trends.

3. Risks and Uncertainties

The new digital technologies are revolutionizing the audiovisual industry here in Canada and around the world. This revolution offers tremendous new opportunities and potential for new business models. The NFB has made great strides in this realm, thanks to its innovative digitization plan and the creation of its NFB.ca online Screening Room. These technological advances have required significant financial outlays by the institution. The NFB will continue to monitor technological changes and wisely invest financial resources in its future programming and accessibility mechanisms.

In addition, the mobility of consumer platforms and the variety of formats to be provided represent enormous challenges. Rights clearance for digital content is chief among them. The NFB will ensure that sufficient financial resources are dedicated to meet this particular challenge.

The decline in traditional operating revenues is a risk that is recognized by media industry experts. However, the NFB is pursuing the measures set forth in its 2010-2014 business plan by developing business partnerships and intends to take advantage of new digital opportunities to mitigate the effects of the reduction in its traditional revenues.

4. Significant Changes in Relation to Operations, Personnel and Programs

No significant changes related to operations, personnel and programs having an impact on financial reporting occurred during the quarter ended December 31, 2011.

Approved by:

Tom Perlmutter

Luisa Frate

Tom Perlmutter

Government Film Commissioner

Montreal, Canada

February 29, 2012

Luisa Frate

Director General, Finance, Operations and Technology
(Chief Financial Officer)

Montreal, Canada

February 29, 2012

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Table 1 : Statement of Authorities *(unaudited)*

	Fiscal Year 2011-2012			Fiscal Year 2010-2011		
	Total available for use for the year ending March 31, 2012*	Used during the quarter ended December 31, 2011	Year to date used at the quarter-end	Total available for use for the year ending March 31, 2011*	Used during the quarter ended December 31, 2010	Year to date used at th quarter-end
Vote 70 - Operating expenditures	68,211,550	15,973,131	46,292,342	67,655,695	15,259,660	46,301,378
Total Budgetary authorities	68,211,550	15,973,131	46,292,342	67,655,695	15,259,660	46,301,378
Total authorities	**68,211,550**	**15,973,131**	**46,292,342**	**67,655,695**	**15,259,660**	**46,301,378**

**Includes only Authorities available for use and granted by Parliament at quarter-end.*

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Table 2 : Departmental budgetary expenditures by Standard Object *(unaudited)*

	Fiscal Year 2011-2012			Fiscal Year 2010-2011		
	Planned expenditures for the year ending March 31, 2012*	Expended during the quarter ended December 31, 2011	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2011*	Expended during the quarter ended December 31, 2010	Year to date used at quarter-end
Expenditures:						
Personnel	42,764,056	9,685,209	29,060,290	42,194,987	9,456,259	29,206,242
Transportation and communications	3,259,182	879,390	2,086,801	3,179,229	883,781	2,259,988
Information	663,981	366,233	533,009	818,147	115,144	362,210
Professional and special services	14,075,951	2,949,345	7,320,176	13,738,986	2,891,852	6,721,501
Rentals	8,106,530	1,942,666	6,009,534	7,997,120	2,099,598	6,389,416
Repair and maintenance	2,177,901	125,406	884,718	951,115	134,937	938,564
Utilities, materials and supplies	1,207,677	269,182	661,094	1,247,749	305,991	778,350
Acquisition of land, buildings and works	-	-	-	-	-	-
Acquisition of machinery and equipment	3,116,709	420,294	1,474,774	4,008,768	267,530	1,842,559
Transfer payments	250,000	131,990	178,990	250,000	51,750	168,550
Public debt charges	-	-	-	-	-	-
Other subsidies and payments	1,042,009	180,397	782,781	1,722,041	107,522	364,147
Total gross budgetary expenditures	**76,663,996**	**16,950,112**	**48,992,167**	**76,108,142**	**16,314,364**	**49,031,527**
Less Revenues netted against expenditures: Revenues credited to the vote	8,452,446	976,981	2,699,825	8,452,447	1,054,704	2,730,149
Total Revenues netted against expenditures	**8,452,446**	**976,981**	**2,699,825**	**8,452,447**	**1,054,704**	**2,730,149**
Total net budgetary expenditures	**68,211,550**	**15,973,131**	**46,292,342**	**67,655,695**	**15,259,660**	**46,301,378**

**Includes only Authorities available for use and granted by Parliament at quarter-end.*